

TENNESSEE REGULATORY AUTHORITY

Sara Kyle, Chairman
Lynn Greer, Director
Melvin Malone, Director

460 James Robertson Parkway
Nashville, Tennessee 37243-0505

September 21, 2001

D. Billye Sanders
Waller Lansden Dortch & Davis
A Professional Limited Liability Company
511 Union Street, Suite 2100
Nashville, TN 37219

RE: Petition of Chattanooga Gas Company for Approval of Tariff Establishing an
Experimental Fixed Rate PGA Rider – Docket No. 01-00761

Dear Ms. Sanders:

The following questions comprise Data Request #2 as previously submitted via email to Hal Novak and Archie Hickerson of Chattanooga Gas Company on September 21, 2001.

1. In your response to the scenarios presented in Item 5 of our first data request, the analysis based on your proposed risk premium of \$1.24 per DTH shows that Sequent may lose \$640,000 in a colder than normal winter scenario, may gain \$6,600,000 in a normal weather scenario, or may gain \$6,200,000 in a warmer than normal weather scenario. This appears to represent a small potential risk versus a large potential gain for Sequent. You have also stated you should be rewarded for taking the risk for the ratepayers. It appears that under the proposed risk premium, your risk is very little compared to your chance for a major gain. Would Sequent consider sharing the risk and potential for gain or loss with your ratepayers?
2. If some sharing mechanism were to be adopted, would an ACA need to be filed to determine how much loss or gain was realized?
3. If the proposed rate (\$1.24 per Dkt) is approved, under the scenarios presented (refer to Question #5), what would be the effective percentage rate increase requested?
4. In exchange for the Company accepting the risk that the ratepayers are now accepting, what is a reasonable estimate of the change in CGC's required return on equity?
5. Would Sequent consider cutting the risk premium to make the possible gains and losses more equal? If so, what risk premium would more accurately align the potential risks and rewards with the actual increase in cost of equity?

Please contact David McClanahan at extension 177 if you have any questions regarding this request. To expedite the filing, please email your responses to Staff in advance of mailing your official responses.

Sincerely,

A handwritten signature in black ink, appearing to read "DWaddell". The signature is stylized with a large, bold "D" and "W".

David Waddell
Executive Director

DDM:blp

cc: Earl Burton
Archie Hickerson
Hal Novak
Legal
Dan McCormac
Pat Murphy

DMc01-41CGCFRP(data request no. 2)